

Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

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R 091626Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6933

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY ROME

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DEPARTMENT PASS FRB AND TREASURY FOR S. Y. CROSS

E.O. 11652:N/A

TAGS: EFIN, KU, UK, SA

SUBJECT: ALLEGED UK PROPOSALS TO GUARANTEE ARAB DEPOSITS

REF: KUWAIT 0039

BEGIN UNCLASSIFIED

1. FINANCIAL TIMES, JANUARY 7, CARRIED FOLLOWING
ARTICLE: "NO STERLING GUARANTEE" BY RICHARD JOHNS,
MIDDLE EAST CORRESPONDENT - BEIRUT REPORTS THAT THE UK
HAS OFFERED TO GUARANTEE SAUDI ARABIAN, AS WELL AS
KUWAITI, STERLING DEPOSITS AGAINST THE FALL BELOW A
FIXED EXCHANGE RATE ARE ROUNDLY DENIED BY OFFICIALS IN
LONDON.

THE NEWSPAPER AL DIYAR, WHICH HAS SAUDI CONNECTIONS,
SAID THE OFFER WAS MADE BY LORD ALDINGTON WHEN HE PAID A
VISIT TO RIYADH LAST MONTH AS THE SPECIAL EMISSARY OF MR.
EDWARD HEATH, THE PRIME MINISTER.

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IT IS POINTED OUT THAT KUWAITI DEPOSITS IN LONDON

ARE ALREADY GUARANTEED UNDER THE BASLE ARRANGEMENTS WHICH WERE EXTENDED IN SEPTEMBER FOR ANOTHER SIX MONTHS FOR THE E IRATE AND OTHER FORMER MEMBERS OF THE OLD STERLING AREA. THIS WAS ESSENTIALLY A HOLDING OPERATION UNTIL SOME MORE LASTING SCHEME COULD BE ARRANGED.

IT IS POSSIBLE, HOWEVER, THAT TALKS ON THE LONG-TERM FUTURE OF THE OIL STATES' HOLDINGS IN LONDON HAVE TAKEN PLACE.

SAUDI ARABIA WAS NEVER A MEMBER OF THE STERLING AREA AND, THOUGH IT NOW RECEIVES SOME OF ITS OIL REVENUES IN STERLING, THIS CURRENCY IS ONLY A RELATIVELY SMALL PART OF THE STATE RESERVES DEPLOYED ABROAD. END ARTICLE
END UNCLASSIFIED

2. SOURCE AT UK TREASURY REPORTS FINANCIAL TIMES ARTICLE WAS INSPIRED, UK TREASURY HAS DENIED THE REPORT THAT UK MADE OFFER IN REFTTEL.

3. COMMENT: UK UNDOUBTEDLY EXPECTS TO TAP ARAB FINANCIAL RESOURCES IN ONE WAY OR ANOTHER, EITHER DIRECTLY OR THROUGH EURO-CURRENCY MARKETS, BUT GUARANTEE PROVISIONS IN KUWAIT ARTICLE DO NOT RING TRUE. UK WOULD LIKE TO REDUCE THE UNILATERAL GUARANTEE IT ALREADY OFFERS STERLING HOLDERS. DOLLAR VALUE OF THESE IS ALREADY GUARANTEED.

SOHM

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